



*Robert M. Wilson
President and
Chief Executive Officer*

February 15, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

Re: Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

I am writing to express my opposition to the proposed rule because I believe that this rule represents an undesirable form of price controls between two industries that will have long-lasting unintended consequences for consumers and local banks. Cambridge Savings Bank (CSB) is a banking institution located in Cambridge, MA with \$2.2 billion in total assets, 15 branches and 300 employees serving consumer and business customers in the greater Boston market. We offer a full line up of products in which we have made a significant investment in electronic delivery products, with a sizeable portion of that investment made in debit card technology. The proposed rule would significantly change the economics of this product, requiring CSB to add fees and balance requirements and may have the unintended consequence of forcing certain customers from the banking system.

Although the statute attempts to exempt smaller institutions from the price control elements, economic forces will drive our institution to adopt the same price level or risk losing market share to the largest institutions. The price differential between cards will give merchants a strong incentive to steer customers to use cards of the larger institutions and would give merchants an incentive to move their deposit accounts to those institutions.

Much of my Bank's growth and market penetration has been developed with the debit card as a key product. Our results have been excellent. This will cause significant disruption and confusion for our customers.

Because the proposal does not permit our bank to cover the cost of providing the debit card product, we will likely see new maintenance and other fees on checking accounts, as well as minimum balance requirements. I strongly encourage the Board to include in the calculation of the fee: network fees; the cost of inquiries and disputes; fraud losses and fraud prevention costs; fixed costs, including capital investments; funding costs; overdraft losses; billing and collection; customer service; data processing; protection of consumer data; compliance costs; card production costs; statement production and mailing; reputation risk and a reasonable profit. A fee that does not take into account these factors is not a "reasonable" fee as mandated by the statute.

Here in Massachusetts, a number of large retailers, including BJ's Warehouse, TJX, and Hannaford Supermarkets, have lost customer payment information in data breaches. Many times these breaches are due to lax security standards and procedures at the retailer. Unfortunately, it is the bank, not the merchant, which

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makes consumers whole and absorbs the cost of issuing new cards, offsetting fraud losses, and providing customer service assistance to affected consumers. The Fed's proposed rule would not allow banks to recoup any of these costs through interchange revenues; instead, banks may be forced to impose additional fees on their own customers to cover the costs of data breaches at merchants. Each one of these breaches has caused my Bank to incur significant costs and spend countless staff hours dealing with the problem.

Our bank earns \$240 thousand (\$0.08/transaction) in annual net interchange income, representing a profit margin of 18%, exclusive of the cost of our debit rewards program. The \$0.08 per transaction is earned by receiving \$1.3 million (\$0.44/trans) in interchange income minus processing costs of \$527 thousand (\$0.18/trans), fraud of \$150 thousand (\$0.05) and staffing and equipment of \$397 thousand (\$0.13). I believe the profit margin is reasonable given that the cost of fraud is on the rise and the cost of our popular debit rewards program is not included. By reducing our interchange income to \$0.12/trans, CSB would experience a \$946 thousand reduction in annual net interchange income, declining from \$240 thousand to a loss of \$706 thousand, or a loss of \$0.24 per transaction.

Additionally, in considering what is a "reasonable" interchange fee, the proposal should recognize important differences between debit cards and checks. This includes the fact that in transactions where the card is present, merchants are guaranteed payment and the issuer suffers the loss in the event there are no funds or a valid account. In contrast, checks may be returned unpayable and merchants suffer the loss.

Regarding the proposal on routing requirements, the Board should adopt alternative A. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. Alternative B would require CSB to have and manage multiple PIN network relationships, creating costs with little benefit. In addition, Alternative B would require re-issuance of cards in many cases, an unnecessary expense and an inconvenience to customers.

Retailers have benefited tremendously from the banking industry's investment in debit card networks and the payments system by embracing the widespread use of debit cards and by benefiting from the higher sales generated by the proliferation of cards. The Fed's proposed rule does not reflect the value of this investment, and sets artificially low interchange rates that will do nothing to improve the security of customer information by retailers while providing no guarantee that merchants will pass any savings along to consumers in the form of lower prices. For the reasons stated above I am opposed to capping interchange fees at 7 or 12 cents. As CSB's analysis shows, it will have a significant impact on Cambridge Savings Bank, our customers and our operations. Additionally, I am also opposed to the adoption of Alternative B for routing debit transactions. Alternative A is a more practical approach.



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cc: Congressman Barney Frank
Congressman Michael E. Capuano
Congressman Steven F. Lynch